

BOWNE OF LONDON 12/03/1999 08:35 BL/SM CUMULATIVE NEXT PCN: 127.00.00.00 - Page is valid, no graphics

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**HOLDING COMPANY FOR FINANCIAL INVESTMENTS
(LAKAH GROUP), S.A.E.**

**CONSOLIDATED INCOME STATEMENT
For the Year Ending December 31, 1998**

	Notes	Consolidated L.E.	Consolidated U.S.\$
Net Sales.....		674,363,025	198,342,066
Less			
Cost of Sales.....		(450,768,617)	(132,579,005)
Gross Profit.....		<u>223,594,408</u>	<u>65,763,061</u>
Less			
General and Administrative Expenses.....		(40,239,567)	(11,835,167)
Financing Expenses.....		(57,929,846)	(17,038,190)
Depreciation and Amortization.....		(1,495,703)	(439,913)
Foreign Exchange Loss.....		(353,010)	(103,826)
Provision for Doubtful Debts.....		(4,997,615)	(1,469,886)
Total Expenses.....		<u>(105,015,741)</u>	<u>(30,886,982)</u>
Net Profit for the Period before Minority Interest and Income Taxes.....		118,578,667	34,876,079
Minority Interest.....		(4,368,275)	(1,284,787)
Provision for Income Taxes.....		(20,980,046)	(6,170,602)
Net Profit For The Year.....	(23)	<u>93,230,346</u>	<u>27,420,690</u>
Earnings per Share.....	(20)	0.81	0.24

Auditor's report attached.

Note: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of U.S.\$1.00 = L.E.3.40

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**HOLDING COMPANY FOR FINANCIAL INVESTMENTS
(LAKAH GROUP), S.A.E.**

**STATEMENT OF CASH FLOWS
For the Year Ending December 31, 1998**

	12.31.98 L.E.	12.31.98 U.S.\$
Cash flows from operating activities		
Net Profit before Taxation	118,578,667	34,876,079
Adjustments for		
Depreciation and Amortization	1,495,703	439,912
Provisions	4,997,615	1,469,887
Net Operating Profit before Working Capital Changes	125,071,985	36,785,878
Increase in Inventory	(194,697,123)	(57,263,860)
Increase in Work in Progress	(109,353,565)	(32,162,814)
Increase in Debtors	(511,389,846)	(150,408,778)
Increase in Creditors Short Term	178,828,069	52,596,491
Increase in Other Credit Balances	12,933,747	3,804,043
Increase in Due to Banks	171,858,623	50,546,654
Increase in Accounts Receivable — Long Term	(167,640,320)	(49,305,976)
Increase in Provisions	1,702,618	500,770
Net Cash (used in) Operating Activities	(492,685,812)	(144,907,592)
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(395,748,796)	(116,396,705)
Increase in Project Under Construction	(164,982,129)	(48,524,156)
Increase in Deferred Expenses	(38,711,546)	(11,385,749)
Increase in Long Term Investments	(262,135,125)	(77,098,566)
Increase in Goodwill	(341,250,506)	(100,367,796)
Net Cash (used in) Investing Activities	(1,202,828,102)	(353,772,971)
Cash Flows from Financing Activities		
Issue of Share Capital	1,149,880,000	338,200,000
Long Term Loans	224,917,977	66,152,346
Bonds	250,000,000	73,529,412
Minority Interests	38,973,726	11,462,861
Creditors — Long Term Balances	13,459,153	3,958,574
Increase in Current Portion of Long Term Debt	36,448,677	10,720,199
Net Cash Provided by Financing Activities	1,713,679,533	504,023,392
Net Increase in Cash and Cash Equivalents	18,165,619	5,342,829
Cash in Hand and at Banks at the Beginning of Year	—	—
Cash in Hand and at Banks at the End of Year	18,165,619	5,342,829

*Note: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of
U.S.\$1.00 = L.E. 3.40*

Holding Company for Financial Investments (Lakah Group), S.A.E.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 1998****1 — The Company**

The Holding Company for Financial Investments (Lakah Group), S.A.E. was incorporated in Egypt on November 29, 1998 under Law 95 of 1992 and its regulations. The purpose of the company is to participate in the formation of companies using securities, or increasing their capital. The company is allowed to form or join with other companies operating in any business field, and companies that help such companies achieve their target, inside or outside Egypt. Also the company is allowed to merge with or acquire existing companies according to the company's operating procedures. The company's first legal financial statements are to be prepared for the period from November 29, 1998 to December 31, 1999.

At December 31, 1998, the Holding Company for Financial Investments (Lakah Group), S.A.E., hereunder called the "Parent Company" owns the following consolidated subsidiaries:

	% of Shares
Trading Medical Systems Egypt, S.A.E.....	97.60%
Medequip for Trading and Contracting, S.A.E.....	97.80%
Amitrade for Trading and Contracting, S.A.E.....	97.02%
Industrial Investment Company S.A.E.....	97.98%
Scandinavian for Investment and Touristic Development, L.t.d.....	97.98%
Arab Steel Factory, S.A.E.....	97.92%
American Company for Marketing, S.A.E.....	97.95%
Quest Consult, S.A.E.....	97.46%
Medical Centers Management — S.A.E.....	97.98%

2 — Significant Accounting Policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below.

2 — 1 Foreign Currency Translation

The subsidiaries' accounts are maintained in Egyptian pounds. Transactions denominated in foreign currencies were translated using the prevailing exchange rates as at December 31, 1998 declared by the free foreign exchange market. At the balance sheet date, assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at that date. The exchange differences are recorded in the income statement.

2 — 2 Basis of preparing the financial statements

The financial statements of the subsidiary companies are prepared according to the Egyptian Accounting Standards. The consolidated financial statements are prepared according to the International Accounting Standards. The Parent Company's financial statements include the balances of assets and liabilities of the nine companies as at December 31, 1998, as well as sales, cost of sales and operating expenses for the period from January 1, 1998 to December 31, 1998, except for the American Company for Marketing which capitalized all expenses, listed as Deferred Expenses in the financial statements.

2 — 3 Principles of Consolidation

The consolidated financial statements include all subsidiaries controlled by the Parent Company.

The basis of the consolidation is as follows:

- All intragroup balances and transactions are eliminated.
- Minority Interest represents equity held by other shareholders in subsidiary companies controlled by the parent company. It appears as a separate item in the consolidated financial statements and is calculated as net assets and results of operations of subsidiaries attributable to interest, which are not owned, directly or indirectly by the parent company.

Holding Company for Financial Investments (Lakah Group), S.A.E.

• The cost of acquisition is allocated as follows:

- (a) The fair value of the assets and liabilities acquired as at the date of the exchange to the extent of the Parent Company's interest obtained in the exchange transactions.
- (b) The excess of the cost of acquisition over the Parent Company's interest in the fair value of the identifiable assets and liabilities acquired as at the date of acquisition is recognized as goodwill and amortized over a period of 20 years starting from January 1, 1999.
- (c) The excess of the Parent Company's interest in the fair value of the identifiable assets and liabilities at the date of acquisition over the acquisition cost is recognized as a negative goodwill and amortized over a period of 20 years starting from January 1, 1999.
- (d) Affiliates of subsidiary companies owned by more than 50 per cent. and controlled by the subsidiaries are consolidated on the same basis.

2 — 4 Inventories

Inventories of raw material, spare parts and supplies are stated at cost. Inventories of finished goods are stated at the lower of cost and net realizable value. Cost is determined by using the average cost method.

2 — 5 Long-Term Investments

Long-Term Investments in companies, which are not controlled by the Parent Company, are recorded at actual cost at the date of acquisition.

2 — 6 Fixed Assets and Depreciation

Fixed Assets are recorded at the historical cost and are depreciated by using the straight-line method over the estimated productive life for each type of asset at the following annual rates:

Assets	Annual Rates
Buildings and Construction.....	2.5% - 10%
Machinery and Equipment.....	5% - 10%
Vehicles.....	20% - 25%
Tools and Supplies.....	10% - 20%
Furniture and Office Equipment.....	10% - 25%

2 — 7 Deferred Expenses

Deferred Expenses represent corporate establishment and pre-operating expenses. These expenses are amortized using the straight-line method over a five-year period (20 per cent.) starting from the first financial year.

2 — 8 Cash Flow Statement

Cash Flow Statement is prepared using the indirect method.

2 — 9 Taxation

A tax provision is formed to meet tax obligations based on detailed studies for each claim. Due to the nature of the Egyptian tax laws and legislation, applying the principles of the deferred taxes, according to the International Accounting Standards "Taxes on Income", will not usually result in any material deferred tax liabilities. Further, if the application results in deferred tax, assets will be recognized in the financial statements whenever there is a sufficient assurance that these assets will be realized in the foreseeable future.

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Holding Company for Financial Investments (Lakah Group), S.A.E.**3 — Cash and Cash Equivalents**

Cash and Cash Equivalents as at December 31, 1998 amounting to L.E.18,165,619 represent the following:

	1998 L.E.	1998 U.S.\$
Banks Current Accounts — L.E.....	7,286,630	2,143,126
Banks Current Accounts — U.S.\$.....	365,578	107,523
Cash in Hand.....	3,685,317	1,083,917
Bank Deposit.....	4,684,000	1,377,647
Letters of Guarantee (Cash Margins).....	2,144,094	630,616
	<u>18,165,619</u>	<u>5,342,829</u>

4 — Debtors — Short Term Balances

Debtors Short Term Balances as at December 31, 1998 amounting to L.E.506,392,231 represented the following:

	1998 L.E.	1998 U.S.\$
Letters of Credit.....	51,216	15,064
Accounts Receivables.....	163,926,633	48,213,716
Lease Receivables.....	27,704,392	8,148,351
Tax Authority.....	626,908	184,384
Debtors.....	86,413,790	25,415,821
Guarantee Deposits.....	63,000,000	18,529,412
Suppliers Debit Balances.....	102,821,830	30,241,715
Letters of Guarantee.....	4,674,776	1,374,934
Other Debit Balances.....	62,475,301	18,375,087
	<u>511,694,846</u>	<u>150,498,484</u>
Less — Provision for Doubtful Debts.....	<u>(5,302,615)</u>	<u>(1,559,593)</u>
	<u>506,392,231</u>	<u>148,938,891</u>

5 — Inventory

Inventory balance as at December 31, 1998 amounting to L.E.194,697,123 represented the following:

	1998 L.E.	1998 U.S.\$
Raw-Material and Scrap.....	137,187,544	40,349,278
Supplies.....	1,279,325	376,272
Spare Parts.....	14,198,246	4,175,955
Packing Materials.....	78,335	23,040
Work in Progress.....	163,361	48,047
Finished Goods.....	41,790,312	12,291,268
	<u>194,697,123</u>	<u>57,263,860</u>

6 — Accounts Receivables — Long Term

Accounts Receivables — Long Term represent Lease Receivables for Medical Equipment amounting to L.E.167,640,320 for more than one year. An additional portion, due in 1999 amounting to L.E.27,704,392 are included in the current assets under Debtors Short-Term Balances.

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Holding Company for Financial Investments (Lakah Group), S.A.E.**7 — Long Term Investments**

Long Term Investments balance as at December 31, 1998 amounting to L.E.262,135,125 represents the following:

	Investment Ratio %	1998 L.E.	1998 U.S.\$
Associated Companies:			
First Power — <i>Egyptian Joint Stock Co.</i>	50%	1,250,000	367,647
Irena for Art Production — <i>Egyptian Joint Stock Co.</i>	50%	62,500	18,382
House of Art — <i>Egyptian Joint Stock Co.</i>	60%	75,000	22,059
Suez Company for Iron Works — <i>Egyptian Joint Stock Co.</i>	50%	54,722,625	16,094,890
Total Associated Companies		<u>56,110,125</u>	<u>16,502,978</u>
Other Companies:			
Delta Sound Company — <i>Egyptian Joint Stock Co.</i>	40%	25,000	7,353
International Co. for Touristic and Real Estate — <i>Egyptian Joint Stock Co.</i>	10%	1,000,000	294,118
Arab Cast Iron & Steel products Factory — <i>Egyptian Joint Stock Co.</i>	49%	124,000,000	36,470,588
Total Other Companies	100%	<u>125,025,000</u>	<u>36,772,059</u>
Detergent Factory — Industrial Investment Company — <i>Egyptian Joint Stock Co.</i> *		81,000,000	23,823,529
Grand Total		<u>262,135,125</u>	<u>77,098,566</u>

* The factory is rented to a third party (Newlit)

8 — Fixed Assets (Net)

Fixed Assets (Net) as at December 31, 1998 amounting to L.E.394,603,343 comprise the following:

	Cost at 12.31.98 L.E.	Accumulated Depreciation till 12.31.98 L.E.	Net Book Value As of 12.31.98 L.E.	Net Book Value As of 12.31.98 U.S.\$
Land	139,067,556	—	139,067,556	40,902,222
Buildings and Construction	44,938,399	1,992,054	42,946,345	12,631,278
Machinery and Equipment	199,462,363	16,165,705	183,296,658	53,910,783
Tools and Supplies	422,363	32,152	390,211	114,768
Furniture and Office Equipment	4,936,902	1,344,971	3,591,931	1,056,450
Vehicles	32,163,858	6,853,216	25,310,642	7,444,306
Total	<u>420,991,441</u>	<u>26,388,098</u>	<u>394,603,343</u>	<u>116,059,807</u>

9 — Projects Under Construction

Projects Under Construction as at December 31, 1998 amounting to L.E.164,982,129 represent the costs incurred for developing projects that are still under progress at the financial statements date, which comprises the following projects:

	L.E.	U.S.\$
Lamp Production Line — American Company for Marketing	13,349,586	3,926,349
Acryline Factory — Quest Consult	24,750,476	7,279,552
Back House — Arab Steel Factory	18,219,188	5,358,585
Swiss Hotel (Sharm El-Sheikh — Construction) — Scandinavian	17,085,550	5,025,162
Swiss Hotel (Sharm El-Sheikh — Infrastructure) — Scandinavian	11,390,368	3,350,108
Parking Area and Service Centers — Universal High Load Trucking	80,186,961	23,584,400
	<u>164,982,129</u>	<u>48,524,156</u>

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Holding Company for Financial Investments (Lakah Group), S.A.E.**10 — Goodwill**

Goodwill, net of negative goodwill, amounting to L.E.248,020,160 resulted from the acquisition of several percentages of the Parent Company subsidiaries, which comprises the following:

	L.E.	U.S.\$
Arab Steel Factory	202,338,200	59,511,235
Industrial Consumer Company	32,734	9,628
Amitrade for Commerce & Contracting	(6,269,546)	(1,843,984)
Quest Consult	(9,100,977)	(2,676,758)
Industrial Investment Company	(9,137,143)	(2,687,396)
Medical Centers Management	(1,587,193)	(466,821)
Scandinavian for Investment and Touristic Development	(7,207,846)	(2,119,955)
Trading Medical Systems	23,626,136	6,948,864
Medequip for Trading and Contracting	55,325,795	16,272,293
	<u>248,020,160</u>	<u>72,947,106</u>

11 — Due to Banks

Due to Banks balance as at December 31, 1998 amounting to L.E.171,858,623 represents the following:

	1998 L.E.	1998 U.S.\$
Bank Overdrafts	34,604,719	10,177,858
Islamic Banks Morabhat	34,764,234	10,224,775
Banks Refinance of Letters of Credit	102,489,670	30,144,021
	<u>171,858,623</u>	<u>50,546,654</u>

12 — Creditors — Short Term Balances

Creditors — Short Term Balances as at December 31, 1998 amounting to L.E.178,828,069 represent the following:

	1998 L.E.	1998 U.S.\$
Notes Payable	10,695,641	3,145,777
Creditors	30,155,583	8,869,289
Accounts Payable	97,157,194	28,575,645
Other Credit Balances	40,819,651	12,005,780
	<u>178,828,069</u>	<u>52,596,491</u>

13 — Other Credit Balances

Other Credit Balances as at December 31, 1998 amounting to L.E.12,933,747 comprise the following:

	L.E.	U.S.\$
Current Account — Scandinavian for Investment and Touristic Development	4,933,747	1,451,102
Partners Loans (Non-Interest Bearing) — Scandinavian for Investment and Touristic Development	8,000,000	2,352,941
	<u>12,933,747</u>	<u>3,804,043</u>

14 — Provisions

Provisions amounting to L.E.22,682,664 are for corporate tax and against other tax claims.

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Holding Company for Financial Investments (Lakah Group), S.A.E.**15 — Long Term Loans**

The subsidiaries have obtained loan facilities from various lending institutions. Total amounts, as reported in the consolidated balance sheet as at December 31, 1998, are L.E.36,448,677 in the form of Short Term Loans and L.E. 224,917,977 in the form of Long Term loans as follows:

Notes	Amount Of Outstanding Long Term Portion	Interest Rates	Currency	Lending Institution	Company
Pledge of medical equipment insurance of 120% Endorsement of promissory notes (Maturity 60 months)	28,828,211	1% over LIBOR 0.75% Commission on Highly Debit Balance Monthly Charged	USD	Banque du Caire	Medequip For Trading & Contracting
Pledge of medical equipment insurance of 120% Endorsement of promissory notes (Maturity 60 months)	1,561,781	13.50% 0.75% Commission on Highly Debit Balance Monthly Charged	L.E.	Banque du Caire	Medequip For Trading & Contracting
Assignment of proceeds for contracts exceeding one year	81,687,396	12.50% 0.1% Commission on Highly Debit Balance Monthly Charged	L.E.	National Bank of Egypt	Medequip For Trading & Contracting
Pledge of medical equipment insurance of 120% Endorsement of promissory notes (Maturity 6 year)	22,620,163	0.75% over LIBOR 0.1% Commission on Highly Debit Balance Monthly Charged	USD	National Bank of Egypt	Medequip For Trading & Contracting
Pledge of medical equipment insurance of 120% Endorsement of promissory notes (Maturity 60 months)	5,911,632	12.50% 0.6% Commission on Highly Debit Balance Monthly Charged	L.E.	Egyptian British Bank	Medequip For Trading & Contracting
Pledge of medical equipment insurance of 120% endorsement of promissory notes (Maturity 60 months)	5,185,520	LE 11% and or 1% over LIBOR 0.6% Commission on Highly Debit Balance Monthly Charged	USD or L.E.	Arab African Bank	Medequip For Trading & Contracting
Subtotal.....	145,794,703				
Pledge of medical equipment insurance of 120% Endorsement of promissory notes	10,022,219	12.25% 0.75% Commission on Highly Debit Balance Monthly Charged	L.E.	Banque du Caire	Trading Medical Systems
Term Loan To finance receivables with maturity Up To 1 Year Up To 2 Years Up To 3 Years	1,820,546	LE 12% and or 1.5% Over Libor 1.35% Commission on Highly Debit Balance Monthly Charged	USD or L.E.	Export Development Bank of Egypt	Trading Medical Systems
Pledge of medical equipment insurance of 120% Endorsement of promissory notes (Maturity 60 months)	4,566,732	LE 11% and or 1% Over LIBOR 0.6% Commission on Highly Debit Balance Monthly Charged	USD or L.E.	Arab African Bank	Trading Medical Systems
Subtotal.....	16,409,497				
Mortgage of Real Estate	12,033,170	15%	LE	Arab Land Bank	Empian For Real Estate Investment
	5,928,398	15%	LE	Arab Land Bank	
Subtotal.....	17,961,568				

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Holding Company for Financial Investments (Lakah Group), S.A.E.

Notes	Amount Of Outstanding Long Term Portion	Interest Rates	Currency	Lending Institution	Company
Loan U.S.\$ 8,072,887 with an international bank for a term of 7.5 years including 2.5 years grace period Payable in semi-annual installments starting from December 2000.	27,447,816	1.5% over LIBOR Commission 0.6% P.A. 0.6% Commission on Highly Debit Balance Monthly Charged 50,000 L.E./P.A Yearly Management Fee	USD	Misc Iran Bank Syndicate: 1-Misc Iran Bank 2-MIBank 3-Cairo Barclays 4-Arab International Bank 5-Delta Bank 6-Arab Bank 7-Arab International Bank	Scandanavian for Touristic and Real Estate Investment
Subtotal.....	27,447,816				
Unsecured Loan	4,667,603	13%	L.E.	Banque du Caire	Arab Steel Factory
Subtotal.....	4,667,603				
Pledge on Machinery.....	8,918,841	13%	L.E.	Banque du Caire	American Company for Marketing
Subtotal.....	8,918,841				
5 Years Term Loan	3,717,949	14%	L.E.	Egyptian British Bank	Universal Trucking Company
Subtotal.....	3,717,949				
Total.....	224,917,977				

The current portion of the above-mentioned long-term loans has reached L.E.36,448,677 and is included under separate caption in the balance sheet (current portion of long term debt).

16 — Bonds

Bonds amounting to L.E.250,000,000 were issued by Arab Steel Factory S.A.E. These bonds are non-convertible into marketable common stock, and they hold a fixed annual interest rate of 11 per cent. The subscription period started in July 1998 for 7 years.

17 — Creditors — Long Term Balances

Creditors — Long Term Balances as at December 31, 1998 amounting to L.E.13,459,153 comprise the following:

	L.E.	U.S.\$
Sales Tax on Capital Machinery and Equipment — Arab Steel Factory S.A.E.....	2,819,015	829,122
Long Term Notes Payable — International High Load Trucking S.A.E.....	10,640,138	3,129,452
	<u>13,459,153</u>	<u>3,958,574</u>

Holding Company for Financial Investments (Lakah Group), S.A.E.**18 — Issued & Paid-Up Capital**

The authorized capital amounts to L.E. 5,000,000,000. The subscribed, issued and paid-up capital amounting to L.E. 1,149,880,000 is divided into 114,988,000 shares at a par value of L.E. 10 each as follows:

Name of Shareholders	% of Participation	No. of Shares	Amount in L.E.
a) Founders:			
Ramy Lakah.....	0.33%	1,000	10,000
Michel Lakah.....	0.33%	1,000	10,000
Farouk Abdel Samei.....	0.16%	500	5,000
b) Subscribers:			
Ramy Lakah.....	49.59%	57,492,750	574,927,500
Michel Lakah.....	39.59%	45,993,950	459,939,500
Banque du Caire.....	10.00%	11,498,800	114,988,000
	<u>100.00%</u>	<u>114,988,000</u>	<u>1,149,880,000</u>

19 — Commitments and Contingent Liabilities

Letters of Guarantee issued by banks for the Group's accounts in favor of others as at December 31, 1998 amounted to L.E. 55 million with a cash margin of L.E. 2,144,094

20 — Earnings Per Share

Earnings per Share are calculated as follows:

	L.E.	U.S.\$
Net Profit for the year	93,230,346	27,420,690
Number of Shares	<u>114,988,000</u>	<u>114,988,000</u>
Earnings per Share.....	0.81	0.24

21 — Subsidiary Companies

The financial statements of Industrial Investment Company S.A.E. are consolidated with those of Universal High Load Trucking S.A.E in which Industrial Investment Company S.A.E. owns a majority holding share exceeding 77.49 per cent.

22 — Subsequent Events

As at the Balance Sheet date, subsequent events comprise the sale of Financial Long-Term Investments in full on June 15, 1999, which were included in the Long-Term Investment account of one of the subsidiary companies (Industrial Investment Company S.A.E.) analyzed as follows:

Description	No. of Shares	Sale Price/Share L.E.	Total L.E.
Investment in Irena for Art Production Company.....	2,500	25	62,500
Investment in Delta Sound Company.....	1,000	25	25,000
Investment in House of Art Company.....	3,000	25	75,000
			<u>162,500</u>

23 — Net Profit for the Year

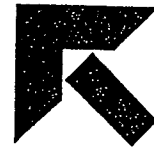
The Profit for the year amounting to L.E. 93,230,346 (U.S.\$ 27,420,690) was directly credited to the Goodwill as it represents the net results of operations of the eight subsidiaries before acquisition.

Auditor's Report

Cherif Mohamed Hammouda

Chartered Accountant

Member of RSM International



To the shareholders of Medequip for Trading and Contracting, S.A.E.

We have audited the financial statements of Medequip for Trading and Contracting, S.A.E. which comprise the balance sheets as at December 31, 1996, 1997 and 1998 and the income statements for the periods ended December 31, 1996, 1997 and 1998 and the statement of cash flows for the periods ended December 31, 1997 and 1998. These financial statements are the responsibility of the company's management. It is our responsibility to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Such standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the position of Medequip for Trading and Contracting, S.A.E. as at December 31, 1996, 1997 and 1998 and the results of its operations and its cash flows for the years then ended in conformity with Egyptian Accounting Standards and comply with applicable Egyptian laws and regulations.

We obtained all data and explanations which we deemed necessary for our audit. Our audit provides us with reasonable assurance that during the year, the Company's accounting records were maintained as required by law and the statute of the company and are in agreement with the accompanying financial statements.

Cherif Hammouda

FESAA-FIFA-FEST
R.A.A. 14260

9 September, 1999

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MEDEQUIP FOR TRADING AND CONTRACTING, S.A.E.

BALANCE SHEET
as at December 31, 1996, 1997 and 1998

	Notes	12.31.98 U.S.\$	12.31.98 L.E.	12.31.97 L.E.	12.31.96 L.E.
Long Term Assets					
Fixed Assets (Net).....	(2A,3)	1,142,696	3,885,167	3,714,060	863,005
Deferred Expenses (Net).....		775,565	2,636,922	3,405,998	8,179,895
Investment in Marketable Securities.....		1,570,929	5,341,160	3,113,400	—
Lease Receivables.....		29,064,284	98,818,566	40,054,305	—
Total Long Term Assets.....		32,553,475	110,681,815	50,287,763	9,042,900
Current Assets					
Inventory.....	(2B)	20,253,560	68,862,103	24,376,653	22,607,824
Work in Progress.....		19,930,377	67,763,280	36,244,927	22,457,182
Accounts Receivables.....	(4)	8,004,508	27,215,327	13,250,477	29,072,413
Lease Receivables.....	(5)	4,418,056	15,021,392	5,722,044	—
Debtors — Short Term Balances.....	(6)	6,960,779	23,666,648	18,018,847	34,066,555
Advance Payment to Suppliers.....		7,837,933	26,648,971	18,560,478	58,478,969
Letters of Credit.....		—	—	—	4,665,769
Cash in Hand and at Banks.....	(7)	1,295,304	4,404,033	4,423,541	38,651,709
Total Current Assets.....		68,700,516	233,581,755	120,596,967	210,000,421
Total Assets.....		101,253,991	344,263,570	170,884,730	219,043,321
Current Liabilities					
Due to Banks.....	(8)	2,752,062	9,357,010	15,131,577	12,798,434
Current Portion of Long Term Loans.....		10,720,199	36,448,677	—	—
Accounts Payable.....		2,755,973	9,370,309	13,552,275	120,889,740
Notes Payable.....		—	—	—	114,967
Provisions.....	(9)	2,881,126	9,795,829	6,251,044	—
Creditors — Short Term Balances.....		2,783,363	9,463,432	11,762,271	357,733
Total Current Liabilities.....		21,892,723	74,435,257	46,697,167	134,160,874
Working Capital.....		46,807,794	159,146,498	73,899,800	75,839,547
Total Investments.....		79,361,269	269,828,313	124,187,563	84,882,447
Shareholder's Equity					
Issued and Paid-Up Capital.....	(10)	29,411,765	100,000,000	20,000,000	20,000,000
Legal Reserve.....		353,436	1,201,681	—	—
Retained Earnings.....		6,715,273	22,831,929	4,187,563	84,553
Total Shareholder's Equity.....		36,480,474	124,033,610	24,187,563	20,084,553
Long Term Liabilities					
Loans.....		—	—	—	—
Long Term Loans.....		42,880,795	145,794,703	100,000,000	64,797,894
Total Long Term Liabilities.....		42,880,795	145,794,703	100,000,000	64,797,894
Total Liabilities and Shareholder's Equity.....		101,253,991	344,263,570	170,884,730	219,043,321
Total Finance of Working Capital and Long Term Assets.....		79,361,269	269,828,313	124,187,563	84,882,447

The accompanying notes are an integral part of the financial statements.

The auditor's report is attached.

Note: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of U.S.\$1.00 = L.E.3.40.

**MEDEQUIP FOR TRADING AND CONTRACTING, S.A.E.
(LAKAH GROUP), S.A.E.**

**INCOME STATEMENT
for the periods ended December 1996, 1997 and 1998**

	Notes	12.31.1998 U.S.\$	12.31.1998 L.E.	12.31.1997 L.E.	12.31.1996 L.E.
Sales		74,557,922	253,496,936	200,968,717	170,327,137
Excess Leasing Amortization Cost of Sales...		(54,777,963)	(186,245,073)	(163,418,676)	(161,706,251)
Gross Profit		<u>19,779,960</u>	<u>67,251,863</u>	<u>37,550,041</u>	<u>8,620,886</u>
Add					
Other Income		332,163	1,129,355	228,882	225,290
Maintenance Revenue		641,149	2,179,905	284,261	—
		<u>20,753,272</u>	<u>70,561,123</u>	<u>38,063,184</u>	<u>8,846,176</u>
Less					
General and Administrative Expenses		(7,642,277)	(25,983,742)	(21,828,801)	(3,366,463)
Financing Expenses		(4,330,428)	(14,723,456)	(8,165,227)	(4,326,062)
Provisions for Doubtful Accounts		(682,678)	(2,321,106)	(980,537)	—
Foreign Exchange Differences		(62,367)	(212,049)	(36,202)	(30,733)
Total Expenses		<u>12,717,751</u>	<u>43,240,353</u>	<u>31,010,767</u>	<u>7,723,258</u>
Net Profit before Tax		<u>8,035,521</u>	<u>27,320,770</u>	<u>7,052,417</u>	<u>1,122,918</u>
Income Tax Provision		2,198,448	7,474,723	2,949,407	—
Net Profit after Tax		<u>5,837,073</u>	<u>19,846,047</u>	<u>4,103,010</u>	<u>1,122,918</u>

The accompanying notes are an integral part of the financial statements.

The auditor's report is attached.

Note: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of
U.S.\$1.00 = L.E.3.40.

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MEDEQUIP FOR TRADING AND CONTRACTING, S.A.E.**STATEMENT OF CASH FLOWS
for the periods ended December 31, 1997 and 1998**

	96 - 97	97 - 98
Cash Flow From Operation		
Net Profit after Tax.....	4,187,563	22,831,929
Posted Profit	(84,553)	(4,187,563)
Depreciation	—	653,346
Provisions and Reserves.....	3,929,944	10,997,510
Net Operating Profit Before Change in Working Capital	8,032,954	30,295,222
Change in Working Capital.....	(36,218,365)	(95,062,035)
Net Cash after Operations	(28,185,411)	(64,766,813)
Cash From Investing Activities		
Change in Fixed Assets.....	(2,851,055)	(824,453)
Intangibles	4,773,897	769,076
Long Term Lease Receivables.....	(40,054,305)	(58,764,261)
Change in Long Term Investments.....	(3,113,400)	(2,227,760)
Net Cash from Investing Activities.....	(41,244,863)	(61,047,398)
Cash From Financing Activities		
Change in Paid-in Capital	—	80,000,000
Change in Long Term Loans.....	35,202,106	45,794,703
Net Cash from Financing Activities.....	35,202,106	125,794,703
Net Cash Flow	(34,228,168)	(19,508)
Opening Balance.....	38,651,709	4,423,541
Ending Balance	4,423,541	4,404,033

Medequip for Trading and Contracting, S.A.E.**NOTES TO THE FINANCIAL STATEMENTS****1) The Company**

Medequip for Trading and Contracting S.A.E., ("Medequip") was incorporated on October 12, 1994 under the Law 159 of 1981. Medequip is principally involved in the following two business activities (i) the sale of medical equipment and (ii) the construction of medical facilities and related construction activities.

2) Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are set out below.

a) Basis of Preparation of Financial Statements

The accounts are prepared on the basis of historical cost in accordance with Egyptian Accounting Standards.

b) Fixed Assets

Fixed Assets are carried at historical cost and are depreciated using the straight-line method over their expected useful lives, according to the following annual rates:

Assets	Annual Rates
Vehicles	25%
Electrical Equipment	12.5%
Furniture	6%
Office Equipment	12.5%
Telephone Switch Pager	12.5-25%
Decoration	20%
Tools and Fixtures	12.5%
Computers	12.5%

c) Inventory

Inventory is stated at the lower of cost or net realizable value using the first-in first-out method.

d) Other Assets

Other Assets represent formation costs incurred for the purpose of establishing the company. These costs are amortized using the straight-line method over a five-year period (20 per cent.).

3) Fixed Assets

	Cost as at 12.31.98	Accumulated Depreciation as at 12.31.98	Net Value as at 12.31.98	Net Value as at 12.31.97	Net Value as at 12.31.96
Vehicles.....	3,031,258	974,105	2,057,154	2,202,969	272,864
Electrical Equipment.....	669,737	167,915	501,822	363,102	356,628
Furniture.....	1,403,860	315,087	1,088,773	1,014,171	164,585
Office Equipment.....	116,390	28,729	87,661	48,834	
Telephone Switch and Pager.....	115,124	28,035	87,089	65,456	55,079
Tools and Fixtures.....	71,079	8,411	62,668	19,527	13,849
	<u>5,407,449</u>	<u>1,522,281</u>	<u>3,885,167</u>	<u>3,714,060</u>	<u>863,005</u>

Medequip for Trading and Contracting, S.A.E.**4) Accounts Receivables**

Accounts Receivables comprise the following:

	12.31.98 L.E.
Ministry of Health	6,395,931
Ministry of Defence.....	3,375,948
Private Medical Centers	2,806,241
Several Hospitals	14,637,207
	<u>27,215,327</u>

5) Lease Receivables

Lease Receivables represent leasing activity for supplying doctors private practices and medical centers with medical equipment and related spare parts. Average lease terms are five years.

6) Debtors — Short Term Balances

Debtors — Short Term Balances comprise the following:

	12.31.98 L.E.
Sales Tax	5,763,936
Withholding Tax	2,484,365
Deposits with Others.....	1,487,265
Prepaid Expenses	1,743,526
Other Debtors	12,187,556
	<u>23,666,648</u>

7) Cash in Hand and at Banks

	12.31.98 L.E.	12.31.97 L.E.	12.31.96 L.E.
Letters of Guarantee	1,746,087	2,249,854	6,917
Banks — Current Accounts.....	2,321,878	2,168,198	11,064,055
Cash in Hand	336,068	5,489	27,580,737
	<u>4,404,033</u>	<u>4,423,541</u>	<u>38,651,709</u>

8) Due to Banks

	12.31.9 L.E.	12.31.97 L.E.
Banque du Caire	7,460,903	12,680,770
Islamic Banks	1,896,107	2,450,807
	<u>9,357,010</u>	<u>15,131,577</u>

9) Provisions

	12.31.98 L.E.	12.31.97 L.E.
Doubtful Lease Receivables	2,321,106	980,537
Income Tax	7,474,723	5,270,507
	<u>9,795,829</u>	<u>6,251,044</u>

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Medequip for Trading and Contracting, S.A.E.**10) Capital**

As at December 31, 1998 the Paid-Up Capital totals L.E. 100,000,000 divided into 1,000,000 shares of L.E. 100 per share as follows:

Shareholder's Name and Nationality	Percentage of Participation	Number of Shares	Amount in L.E. 98	Amount in L.E. 97	Amount in L.E. 96
Holding Company for Financial Investments (Lakah Group), S.A.E.....	97.80%	978,000	97,800,000	—	—
Mr. Ramy Lakah — Egyptian	1.00%	10,000	1,000,000	9,900,000	9,900,000
Mr. Michel Lakah — Egyptian.....	1.00%	10,000	1,000,000	9,900,000	9,900,000
Mr. Farouk Abdel Samie — Egyptian	0.01%	50	5,000	5,000	5,000
Mr. Samy Toutoungy — Egyptian.....	0.20%	1,950	195,000	195,000	195,000
	<u>100%</u>	<u>1,000,000</u>	<u>100,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>

Auditor's Report

Cherif Mohamed Hammouda

Chartered Accountant

Member of RSM International



To the shareholders of Trading Medical System Egypt, S.A.E.

We have audited the financial statements of Trading Medical System Egypt, S.A.E. which comprise the balance sheets as at December 31, 1996, 1997 and 1998 and the income statements for the periods ended December 31, 1996, 1997 and 1998 and the statements of cash flows for the periods ended December 31, 1997 and 1998. These financial statements are the responsibility of the company's management. It is our responsibility to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Such standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the position of Trading Medical System Egypt, S.A.E. as at December 31, 1996, 1997 and 1998 and the results of its operations and its cash flows for the years then ended in conformity with Egyptian Accounting Standards and comply with applicable Egyptian laws and regulations.

We obtained all data and explanations which we deemed necessary for our audit. Our audit provides us with reasonable assurance that during the year, the company's accounting records were maintained as required by law and the statute of the company and are in agreement with the accompanying financial statements.

Cherif Hammouda

FESAA-FIFA-FEST
R.A.A. 14260

September 9, 1999

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TRADING MEDICAL SYSTEM EGYPT, S.A.E.

BALANCE SHEET
as at December 31, 1996, 1997 and 1998

	(Notes)	12.31.98 U.S.\$	12.31.98 L.E.	12.31.97 L.E.	12.31.96 L.E.
Long Term Assets					
Fixed Assets (Net).....	(2B-3)	1,119,706	3,807,000	4,245,133	1,136,499
Deferred Expenses.....		—	—	—	1,698,808
Lease Receivables.....	(4)	20,241,692	68,821,754	78,150,759	—
Total Long Term Assets.....		<u>21,361,398</u>	<u>72,628,754</u>	<u>82,395,892</u>	<u>2,835,307</u>
Current Assets					
Inventory.....	(2C)	9,080,054	30,872,182	32,203,868	37,123,760
Accounts Receivables.....		1,836,969	6,245,694	5,089,272	35,321,976
Lease Receivables.....		3,730,294	12,683,000	11,164,354	—
Letters of Credit.....		—	—	—	28,003,674
Debtors Short Term Balances.....	(5)	7,393,778	25,138,846	4,444,613	1,164,513
Letters of Guarantee (Cash Margin).....		929,235	3,159,400	2,450,520	3,211,635
Cash in Hand and at Banks.....	(6)	805,882	2,740,000	2,881,345	20,229,831
Total Current Assets.....		<u>23,776,212</u>	<u>80,839,121</u>	<u>58,233,972</u>	<u>125,055,389</u>
Current Liabilities					
Due to Banks.....	(7)	13,182,338	44,819,950	27,219,526	97,015,254
Creditors Short-term.....		3,850,939	13,093,194	18,959,955	9,711
Notes Payable.....		—	—	—	3,343,849
Advanced Payments.....		—	—	—	9,376,968
Accounts Payable.....		918,351	3,122,392	9,577,880	—
Provisions.....	(8)	2,749,879	9,349,587	4,211,897	—
Total Current Liabilities.....		<u>20,701,507</u>	<u>70,385,123</u>	<u>59,969,258</u>	<u>109,745,782</u>
Working Capital.....		<u>3,074,705</u>	<u>10,453,998</u>	<u>(1,735,286)</u>	<u>15,309,607</u>
Total Investments.....		<u>24,436,104</u>	<u>83,082,752</u>	<u>80,660,606</u>	<u>18,144,914</u>
Shareholders' Equity					
Issued and Paid-Up Capital.....	(9)	14,705,882	50,000,000	20,000,000	20,000,000
Legal Reserve.....		404,706	1,376,000	207,467	—
Retained Earnings.....		4,499,193	15,297,255	3,941,870	(1,855,086)
Total Shareholder's Equity.....		<u>19,609,781</u>	<u>66,673,255</u>	<u>24,149,337</u>	<u>18,144,914</u>
Long Term Liabilities					
Long Term Loans.....		4,826,323	16,409,497	56,511,269	—
Total Long Term Liabilities.....		<u>4,826,323</u>	<u>16,409,497</u>	<u>56,511,269</u>	<u>—</u>
Total Finance of Working Capital and Long Term Assets.....		<u>24,436,104</u>	<u>83,082,752</u>	<u>80,660,606</u>	<u>18,144,914</u>

The accompanying notes are an integral part of the financial statements.

The auditor's report is attached

Note: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of
U.S.\$1.00 = L.E. 3.40.

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TRADING MEDICAL SYSTEM EGYPT, S.A.E.

INCOME STATEMENT
for the periods ended December 31, 1997 and 1998

	12.31.98 U.S.\$	12.31.98 L.E	12.31.97 L.E	12.31.96 L.E
Sales	40,832,597	138,830,830	117,182,469	14,235,485
Cost of Sales	(30,449,706)	(103,529,000)	(93,350,695)	(11,165,389)
Gross Profit	<u>10,382,891</u>	<u>35,301,830</u>	<u>23,831,774</u>	<u>3,070,096</u>
Less				
General and Administrative Expenses	2,641,590	8,981,407	8,117,251	1,929,826
Financing Expenses	1,750,294	5,951,000	5,110,069	397,390
Provision for Doubtful Debts	516,179	1,755,009	1,875,195	
Depreciation of Fixed Assets	138,155	469,726	388,133	253,981
Total Expenses	<u>5,046,218</u>	<u>17,157,142</u>	<u>15,490,648</u>	<u>2,581,197</u>
Add				
Creditors Interests				42,909
Net Profit before Taxes	<u>5,336,673</u>	<u>18,144,688</u>	<u>8,341,126</u>	<u>531,808</u>
Income Tax Provision	<u>1,653,168</u>	<u>5,620,770</u>	<u>2,336,702</u>	<u>—</u>
Net Profit after Taxes	<u>3,683,505</u>	<u>12,523,918</u>	<u>6,004,424</u>	<u>531,808</u>

The accompanying notes are an integral part of the financial statements.

The auditor's report is attached

Note: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of U.S.\$1.00 = L.E.3.40.

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TRADING MEDICAL SYSTEM EGYPT, S.A.E.

STATEMENT OF CASH FLOWS
for the periods ended December 31, 1997 and 1998

	96 - 97	97 - 98
Cash Flow from Operation		
Net Profit after Tax	3,941,870	15,297,255
Posted Profit	1,855,086	(3,941,870)
Depreciation	388,133	469,726
Provisions & Reserves	4,419,364	8,751,779
Net Operating Profit before Change in Working Capital	10,604,453	20,576,890
Change in Working Capital	(4,515,490)	(19,913,875)
Net Cash after Operations	6,088,963	663,015
Cash from Investing Activities		
Change in Fixed Assets	(3,496,767)	(31,593)
Intangibles	1,698,808	—
Long Term Lease Receivables	(78,150,759)	9,329,005
Net Cash from Investing Activities	(79,948,718)	9,297,412
Cash From Financing Activities		
Change in Paid-in Capital	—	30,000,000
Change in Long Term Loans	56,511,269	(40,101,772)
Net Cash from Financing Activities	56,511,269	(10,101,772)
Net Cash Flow	(17,348,486)	(141,345)
Opening Balance	20,229,831	2,881,345
Ending Balance	2,881,345	2,740,000

Trading Medical System Egypt, S.A.E.**NOTES TO THE FINANCIAL STATEMENTS****1) The Company**

Trading Medical System Egypt, S.A.E. ("TMSE") was incorporated on December 17, 1994. Under the Law 159 of 1981. TMSE is involved in marketing, importing, re-exporting, distributing, installing and servicing sophisticated medical imaging equipments.

2) Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are set out below.

a) Basis of Preparation of Financial Statements

The accounts are prepared on the basis of historical cost in accordance with Egyptian Accounting Standards.

b) Foreign Currency Translation

TMSE maintains its accounts in Egyptian pounds. Transactions denominated in foreign currencies are translated to Egyptian pounds using the prevailing free market rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated to Egyptian Pounds using the exchange rates prevailing at the year end. Translation differences are included in the Income Statement.

c) Fixed Assets

Fixed Assets are stated at historical cost and are depreciated using the straight-line method over their estimated productive lives, according to the following annual rates.

Fixed Assets	Annual Rates
Vehicles	25%
Electrical Equipment	12.5%
Furniture	6-20%
Iron Safe	12.5%
Telephone Switch and Pager	12.5%
Decoration	20%
Tools and Fixtures	12.5%
Computers	12.5%
Decoration	20%

d) Inventory

Inventory is stated at the lower of cost or net realizable value using the first-in first-out method.

3) Fixed Assets

	Cost as at 12.31.98 L.E.	Accumulated depreciation as at 12.31.98 L.E.	Net Value as at 12.31.98 L.E.	Net Value as at 12.31.97 L.E.
Vehicles	3,548,816	784,668	2,764,148	3,079,079
Electrical Equipment	296,038	65,456	230,582	240,582
Furniture	1,105,375	598,177	507,197	607,198
Iron Safe	17,247	3,813	13,433	14,535
Telephone Switch & Pager	312,681	69,136	243,545	253,545
Fire Equipment	4,076	901	3,175	3,275
Tools & Fixtures	57,600	12,680	44,920	46,920
	<u>5,341,832</u>	<u>1,534,833</u>	<u>3,807,000</u>	<u>4,245,133</u>

4) Lease Receivables

TMSE entered into lease contracts through which it leases certain equipment to its clients (Lessees). The leased equipment title passes to the lessee at the end of the lease term (up to five years). Lease receivables represents the total lease payments to be received.

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Trading Medical System Egypt, S.A.E.**5) Debtors Short Term Balances**

	12.31.98 L.E.	12.31.97 L.E.
Sales Tax.....	6,408,135	—
Withholding Tax.....	3,743,582	—
Deposits with Others.....	920,282	—
Prepaid Expenses.....	9,074,601	—
Accrued Revenue.....	4,992,246	—
Advance Payments to Suppliers.....	—	4,444,613
	<u>25,138,846</u>	<u>4,444,613</u>

6) Cash in hand and at Banks

	12.31.98 L.E.	12.31.97 L.E.	12.31.96 L.E.
Banks — Current Accounts.....	2,568,000	2,450,516	20,217,217
Cash in Hand.....	172,000	430,829	12,614
	<u>2,740,000</u>	<u>2,881,345</u>	<u>20,229,831</u>

7) Due To Banks

	12.31.98 L.E.	12.31.97 L.E.	12.31.96 L.E.
Banque du Caire.....	44,819,950	2,214,358	—
Islamic Banks.....	—	25,005,168	20,053,574
Other Financial Institutions.....	—	—	76,961,680
	<u>44,819,950</u>	<u>27,219,526</u>	<u>97,015,254</u>

8) Provisions

	12.31.98 L.E.	12.31.97 L.E.
Income Tax Provision.....	7,594,579	236,702
Provision for Doubtful Debts.....	1,755,009	1,875,195
	<u>9,349,587</u>	<u>2,111,897</u>

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Trading Medical System Egypt, S.A.E.

9) Capital

Shareholder's name and nationality:	Percentage of Participation	Number of Shares	12.31.98 L.E.	12.31.97 L.E.	12.31.96 L.E.
Holding Company for Financial Investments (Lakah Group), S.A.E.....	97.60%	488,000	48,800,000	—	—
Mr. Ramy Lakah — Egyptian	0.40%	2,000	200,000	9,900,000	9,900,000
Mr. Michel Lakah — Egyptian.....	0.01%	65	6,500	9,900,000	9,900,000
Mr. Ramy Oda Pacha — Egyptian.....	0.57%	2,825	282,500	195,000	195,000
Mr. Samy Toutoungy — Egyptian.....	0.69%	3,450	345,000	—	—
Mr. Ramy Aziz — Egyptian	0.03%	150	15,000	—	—
Mr. Rafik Chehata — Egyptian.....	0.16%	800	80,000	—	—
Mr. Medhat Sobhy — Egyptian.....	0.53%	2,660	266,000	—	—
Mr. Farouk Abdel Samei — Egyptian.....	0.01%	50	5,000	5,000	5,000
	<u>100.00%</u>	<u>500,000</u>	<u>50,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>

Auditor's Report

Cherif Mohamed Hammouda

Chartered Accountant

Member of RSM International



To the shareholders of Arab Steel Factory, S.A.E.

We have audited the financial statements of Arab Steel Factory, S.A.E., which comprise the balance sheets as at December 31, 1996, 1997 and 1998 and the income statement for the periods ended December 31, 1998 and the statement of cash flows for the periods ended December 31, 1998. These financial statements are the responsibility of the company's management. It is our responsibility to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the position of Arab Steel Factory, S.A.E. as at December 31, 1996, 1997 and 1998 and the results of its operations and its cash flows for the years then ended in conformity with Egyptian Accounting Standards and comply with applicable Egyptian laws and regulations.

We obtained all data and explanations which we deemed necessary for our audit. Our audit provides us with reasonable assurance that during the year, the company's accounting records were maintained as required by law and the statute of the company and are in agreement with the accompanying financial statements.

Cherif Hammouda

FESAA-FIFA-FEST
R.A.A. 14260

9 September, 1999

ARAB STEEL FACTORY, S.A.E.

BALANCE SHEET
as at December 31, 1996, 1997 and 1998

	Notes	12.31.98 U.S.\$	12.31.98 L.E.	12.31.97 L.E.	12.31.96 L.E.
Long Term Assets					
Fixed Assets (Net)	(2c,3)	61,537,034	209,225,914	218,974,952	61,395,287
Deferred Expenses (Net).....	(2e,4)	6,673,455	22,689,747	26,108,750	8,478,308
Long Term Investments.....	(5)	36,470,588	124,000,000	—	—
Projects under Construction.....	(6)	5,358,585	18,219,188	20,000	—
Total Long Term Assets.....		110,039,661	374,134,849	245,103,702	69,873,595
Current Assets					
Inventory	(2d,7)	22,737,975	77,309,116	73,683,210	—
Accounts Receivables.....	(8)	11,469,009	38,994,632	—	19,105,531
Debtors — Short Term Balances.....		17,809,150	60,551,110	57,726,819	—
Letters of Credit.....		—	—	—	2,024,199
Advance Payments to Suppliers.....		2,054,077	6,983,861	—	—
Cash in Hand and at Banks.....	(9)	666,007	2,264,423	1,856,822	1,219,010
Total Current Assets.....		54,736,218	186,103,143	133,266,851	22,348,741
Current Liabilities					
Accounts Payable.....		—	—	—	12,997,007
Due to Banks.....	(10)	4,523,480	15,379,832	95,235,441	—
Provisions.....		174,568	593,530	—	—
Creditors — Short Term Balances.....		1,764,970	6,000,898	1,277,268	—
Other Creditors.....		492,978	1,676,126	—	1,644,182
Total Current Liabilities.....		6,955,996	23,650,386	96,512,709	14,641,189
Working Capital.....		47,780,223	162,452,757	36,754,142	7,707,552
Total Investments.....		157,819,884	536,587,606	281,857,844	77,581,147
Shareholder's Equity					
Issued and Paid-up Capital.....	(11)	73,529,412	250,000,000	20,000,000	20,000,000
Legal Reserve.....		427,956	1,455,049	—	—
Retained Earnings.....		8,131,159	27,645,939	—	—
Due to Shareholders.....		—	—	103,220,795	—
Total Shareholder's Equity.....		82,088,526	279,100,988	123,220,795	20,000,000
Long Term Liabilities					
Long Term Loans.....	(12)	1,372,824	4,667,603	156,560,925	57,581,147
Bonds.....	(13)	73,529,412	250,000,000	—	—
Creditors — Long Term Balances.....	(14)	829,122	2,819,015	2,076,124	—
Total Long Term Liabilities.....		75,731,358	257,486,618	158,637,049	57,581,147
Total Finance of Working Capital and Long Term Assets.....		157,819,884	536,587,606	281,857,844	77,581,147

The accompanying notes are an integral part of the financial statements.

The auditor's report is attached.

Note: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of U.S.\$1.00 = L.E. 3.40

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ARAB STEEL FACTORY, S.A.E.

INCOME STATEMENT
for the periods ended December 31, 1998

	Notes	12.31.98 U.S.\$	12.31.98 L.E.	12.31.97 L.E.	12.31.96 L.E.
Net Sales		54,933,367	186,773,448	0	0
Cost of Goods Sold		(31,877,371)	(108,383,061)	0	0
Less					
Fixed Assets Depreciation		(4,054,821)	(13,786,392)	0	0
Pre-Production Tests Amortization		(190,389)	(647,324)	0	0
Gross Profit		<u>18,810,786</u>	<u>63,956,671</u>	<u>0</u>	<u>0</u>
Less					
General and Administrative Expenses		(701,311)	(2,384,457)	0	0
Financing Expenses		(8,396,710)	(28,548,813)	0	0
Fixed Assets Depreciation		(301,758)	(1,025,977)	0	0
Pre-Opening Expenses Amortization		(815,200)	(2,771,679)	0	0
Miscellaneous Revenues		172,769	587,414	0	0
Foreign Exchange Differences		(34,894)	(118,640)	0	0
Net Profit for the year before Taxes		<u>8,733,682</u>	<u>29,694,519</u>	<u>0</u>	<u>0</u>
Sales Tax Provisions		(174,568)	(593,530)	0	0
Net Profit for the year after Taxes		<u>8,559,114</u>	<u>29,100,989</u>	<u>0</u>	<u>0</u>

The accompanying notes are an integral part of the financial statements.

The auditor's report is attached.

Note: Solely for the convenience of the reader, the translation of Egyptian pounds into U.S. Dollars has been made at the rate of
U.S.\$1.00 = L.E. 3.40

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ARAB STEEL FACTORY, S.A.E.

STATEMENT OF CASH FLOWS
for the periods ended December 31, 1997 and 1998

	for the periods ended December 31, 1997 and 1998	
	96-97	97-98
Cash Flow From Operation		
Net Profit after Tax.....	—	29,100,989
Depreciation	—	1,025,977
Amortization.....	—	3,797,656
Provisions and Reserves.....	—	593,530
Net Operating Profit Before Change in Working Capital	—	34,518,152
Change in Working Capital.....	(28,408,778)	(125,884,544)
Net Cash after Operations	(28,408,778)	(91,366,392)
Cash From Investment Activities		
Change in Fixed Assets.....	(157,579,665)	8,723,061
Intangibles	(17,630,442)	(378,653)
Change in Long Term Investments.....	—	(124,000,000)
Projects in Progress.....	(20,000)	(18,199,188)
Net Cash from Investment Activities.....	(175,230,107)	(133,854,780)
Cash From Financing Activities		
Change in Paid-in Capital	—	230,000,000
Change in Long Term Loans.....	98,979,778	(151,893,322)
Due to Shareholders	103,220,795	(103,220,795)
Creditors — Long Term Balances	2,076,124	742,891
Issued Bonds.....	—	250,000,000
Net Cash from Financing Activities.....	204,276,697	225,628,774
Net Cash Flow	637,812	407,602
Opening Balance.....	1,219,010	1,856,822
Ending Balance	1,856,822	2,264,424

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Arab Steel Factory, S.A.E.**NOTES TO THE FINANCIAL STATEMENTS****1) The Company**

Arab Steel Factory ("Arab Steel") was incorporated in Egypt in December 1994 under the Law 159 of 1981. Arab Steel is a leading manufacturer in Egypt of steel billets for sale in the Egyptian market. Billet is the raw material required for the manufacture of steel rebars, angels and beams.

2) Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are set out below.

a) Basis of Preparation of Financial Statements

The accounts are prepared on the basis of historical cost in accordance with Egyptian Accounting Standards.

b) Accounting Basis

The accounts are made on the basis of historical cost in accordance with Egyptian Accounting Standards.

c) Foreign Currency Transactions

Arab Steel maintains its accounts in Egyptian currency, and it records its foreign currency transactions on the basis of exchange rates at the time of transaction itself. Re-valuation of the accounts is conducted at year-end using the prevailing exchange rates on December 31.

d) Fixed Assets

Fixed Assets are recorded at their historical cost, and are depreciated using the straight-line method over their estimated productive life according to the following annual rates:

Fixed Assets	Annual Rates
Buildings.....	2%
Machinery and Equipment.....	10%
Fixtures.....	20%
Office Furniture and Equipment.....	15%
Vehicles.....	20%

e) Inventory

Raw Material Inventory is priced at cost on a weighted average basis, and finished goods inventory is priced at cost, including raw materials, direct labor and a share of indirect expenses determined on the basis of the normal activity.

f) Deferred Expenses

Pre-Opening Expenses amortized over 7 years.

3) Fixed Assets

	Historical Cost L.E.	Accumulated Depreciation L.E.	Net Book Value 98 L.E.	Net Book Value 97 L.E.	Net Book Value 96 L.E.
Land.....	48,997,530	—	48,997,530	48,997,530	2,673,200
Buildings and Constructions.....	14,273,250	261,135	14,012,115	14,262,378	5,265,329
Machinery and Equipment.....	156,325,409	13,786,392	142,539,017	151,106,970	52,312,318
Office Equipment and Fixtures.....	609,740	63,469	546,271	775,721	263,103
Vehicles.....	3,832,354	701,373	3,130,981	3,832,353	881,337
	<u>224,038,283</u>	<u>14,812,369</u>	<u>209,225,914</u>	<u>218,974,952</u>	<u>61,395,287</u>

4) Deferred Expenses

	12.31.98 L.E.	12.31.97 L.E.	12.31.96 L.E.
Pre-Operating Expenses.....		21,165,549	8,478,308
Production Tests Period.....		17,201,687	—
Production Tests Revenues.....		(12,258,486)	—
	<u>22,689,747</u>	<u>26,108,750</u>	<u>8,478,308</u>

5) Long Term Investments

Long Term Investments amounted to L.E. 124,000,000 representing investments in a new venture, Steel Products Factory, with 49 per cent. of total shares.

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Arab Steel Factory, S.A.E.**6) Projects under Construction**

Projects under Construction amounted to L.E. 18,219,188 representing the construction of the back house and scrap depot and power station.

7) Inventory

	12.31.98 L.E.	12.31.97 L.E.
Raw Materials and Scrap.....	57,275,352	41,820,724
Spare Parts Inventory.....	357,159	278,200
Goods in Transit.....	16,866,243	29,829,250
Finished Goods	2,810,362	1,755,036
	<u>77,309,116</u>	<u>73,683,210</u>

8) Accounts Receivable

Accounts Receivables comprise the following:

	12.31.98 L.E.
Al Atia.....	5,748,668
El Tensah Co.....	8,019,034
Suez for Iron Production.....	6,849,195
El Dekhila Co.....	9,798,923
Counter Steel Co.	7,798,929
Others.....	779,883
	<u>38,994,632</u>

9) Cash in Hand and at Banks

	12.31.98 L.E.
Banks — Current Accounts.....	539,911
Cash in Hand.....	1,724,512
	<u>2,264,423</u>

10) Due to Banks

	12.31.98 L.E.
SAIB-AC/5.....	13,877
SAIB-AC/005.....	15,365,955
	<u>15,379,832</u>

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Arab Steel Factory, S.A.E.**11) Capital**

Shareholders Name and Nationality	Percentage of Participation	Number of Shares	Amount in L.E. 98	Amount in L.E. 97	Amount in L.E. 96
The Holding Company for Financial Investments (Lakah Group), S.A.E.	97.920%	2,448,000	244,800,000	—	—
Ramy Lakah.....	0.860%	21,500	2,150,000	9,900,000	9,900,000
Michel Lakah.....	1.000%	25,000	2,500,000	9,900,000	9,900,000
Farouk Abdel Samei.....	0.002%	50	5,000	5,000	5,000
Ramy Oda Pacha.....	0.010%	250	25,000	—	—
Samy Toutoungy.....	0.022%	550	55,000	—	—
Ramy Aziz.....	0.014%	350	35,000	—	—
Rafik Chehata.....	0.008%	200	20,000	—	—
Medhat Sobhy.....	0.085%	2,125	212,500	—	—
Ramy Faltas.....	0.079%	1,975	197,500	195,000	195,000
	<u>100.000%</u>	<u>2,500,000</u>	<u>250,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>

12) Long term Loans

Long Term Loans were paid in full in 1998 using proceeds of the bond issue.

13) Bonds

A 7-year L.E. 250 million bond issue with a coupon of 11 per cent.

14) Creditors — Long Term Balances

Creditors — Long Term Balances in the amount L.E. 2,819,015 represent total sales tax for importing capital goods (machinery and equipment).

	12.31.98 L.E.	12.31.97 L.E.
Sales Tax Authority	2,819,015	2,076,124
	<u>2,819,015</u>	<u>2,076,124</u>

15) Taxes

Arab Steel enjoys a tax holiday of 10 years starting from the first operating year (1998).

Auditor's Report

Cherif Mohamed Hammouda

Chartered Accountant

Member of RSM International



To the Board of Directors of Holding Company for Financial Investments (Lakah Group), S.A.E.

We have audited the accompanying consolidated balance sheet of Holding Company for Financial Investments (Lakah Group), S.A.E. and its subsidiaries as at June 30, 1999 and the related consolidated statements of income and cash flows for the six-month period then ended. These consolidated financial statements are the responsibility of the company's management. It is our responsibility to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Holding Company for Financial Investments (Lakah Group), S.A.E. as at June 30, 1999, and the results of their operations and their cash flows for the six-month period then ended in conformity with International Accounting Standards and comply with applicable Egyptian laws and regulations.

Cherif Hammouda

FESAA-FIFA-FEST
R.A.A. 14260

September 9, 1999

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Independent Auditors' Report

Mostafa Shawki & Co Deloitte & Touche



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Facsimile: (02) 393.9430
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To the Board of Directors
of the Holding Company for Financial Investments
Lakah Group
(S.A.E.)

We have audited the accompanying consolidated balance sheet of the Holding Company for Financial Investments (Lakah Group), S.A.E. as at June 30, 1999 and the related consolidated statements of income and cash flows for the period from January 1, 1999 to June 30, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the eight subsidiaries explained in Note No. 1 (consolidated subsidiaries) which statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the eight subsidiaries, is based solely on the reports of such other auditors.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of the Holding Company for Financial Investments (Lakah Group), S.A.E. as at June 30, 1999 and the results of their operations and their cash flows for the period from January 1, 1999 to June 30, 1999 in conformity with International Accounting Standards and in compliance with applicable Egyptian laws and regulations.

Mostafa Shawki & Co
Deloitte & Touche

27 September, 1999

**Deloitte Touche
Tohmatsu**

**HOLDING COMPANY FOR FINANCIAL INVESTMENTS
(LAKAH GROUP), S.A.E.**

**CONSOLIDATED BALANCE SHEET
as at June 30, 1998**

	Notes	30-6-99 U.S.\$	30-6-99 L.E.	31-12-98 L.E.	Pro forma 31-12-98 L.E.
Assets					
Current Assets					
Cash and Cash Equivalent.....	3	35,803,773	121,732,827	18,165,619	60,292,576
Debtors — Short Term Balances (Net).....	4	146,907,290	499,484,787	506,392,231	495,668,877
Inventory.....	(2-4) 5	88,171,914	299,784,506	194,697,123	194,697,123
Work in Progress.....		50,882,286	172,999,774	109,353,565	104,770,319
Total Current Assets.....		321,765,263	1,094,001,894	828,608,538	855,428,895
Long Term Assets					
Accounts Receivables — Long Term ..	6	53,843,891	183,069,229	167,640,320	167,640,320
Long Term Investments	(2-5) 7	96,780,052	329,052,176	262,135,125	258,628,063
Fixed Assets — (Net).....	(2-5) 8	132,919,071	451,924,840	394,603,343	354,338,029
Projects under Construction.....	9	12,357,585	42,015,790	164,982,129	136,506,211
Goodwill	10	76,058,795	258,599,902	248,020,160	252,776,691
Deferred Expenses — (Net)	(2-7)	9,182,188	31,219,440	38,361,296	34,340,047
Total Long Term Assets.....		381,141,581	1,295,881,377	1,275,742,373	1,204,229,361
Total Assets		702,906,844	2,389,883,271	2,104,350,911	2,059,658,256
Liabilities					
Current Liabilities					
Due to Banks	11	36,427,809	123,854,551	171,858,623	171,858,623
Current Portion of Long Term Debt ..	15	12,955,244	44,047,830	36,448,677	36,448,677
Creditors Short Term Balances	12	9,858,372	33,518,466	178,828,069	177,951,638
Other Credit Balances.....	13	4,227,941	14,375,000	12,933,747	—
Provisions.....	14	15,820,156	53,788,531	22,682,664	22,655,980
Total Current Liabilities		79,289,523	269,584,378	422,751,780	408,914,918
Long Term Liabilities					
Long Term Loans	15	43,077,207	146,462,505	224,917,977	197,470,161
Bonds	16	191,176,471	650,000,000	250,000,000	250,000,000
Creditors — Long Term Balances.....		—	—	13,459,153	13,459,153
Total Long Term Liabilities.....		234,253,678	796,462,505	488,377,130	460,929,314
Minority Interest		7,284,618	24,767,702	43,342,001	39,934,024
Shareholders' Equity					
Issued and Subscribed Capital	18	441,141,176	1,499,880,000	1,149,880,000	1,149,880,000
Unpaid Installments		(92,647,059)	(315,000,000)	—	—
Paid up Capital.....		348,494,118	1,184,880,000	1,149,880,000	1,149,880,000
Net Profit for the Period.....		33,584,908	114,188,686	—	—
Total Shareholders' Equity.....		382,079,025	1,299,068,686	1,149,880,000	1,149,880,000
Total Liabilities and Shareholders' Equity		702,906,844	2,389,883,271	2,104,350,911	2,059,658,256

The accompanying notes are an integral part of the financial statements.

Auditor's report attached.

Note: Solely for the convenience of the reader, the Egyptian pounds into U.S. Dollars translation has been made at the rate of U.S.\$1.00 = L.E. 3.40.